



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

NOV 05 2009

Office of Audit Services, Region IX  
90 – 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Report Number: A-09-09-00078

Mr. Toby Douglas  
Chief Deputy Director of Health Care Programs  
California Department of Health Care Services  
1501 Capitol Avenue, MS 0002  
Sacramento, California 95814

Dear Mr. Douglas:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled “Review of Medicaid Credit Balances at Tri-City Medical Center as of February 28, 2009.” We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact Doug Preussler, Audit Manager, at (415) 437-8360 or through email at [Doug.Preussler@oig.hhs.gov](mailto:Doug.Preussler@oig.hhs.gov), or contact Anthony Rocha, Senior Auditor, at (916) 498-6641, extension 223, or through email at [Anthony.Rocha@oig.hhs.gov](mailto:Anthony.Rocha@oig.hhs.gov). Please refer to report number A-09-09-00078 in all correspondence.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Ms. Jackie Garner  
Consortium Administrator  
Consortium for Medicaid and Children's Health Operations  
Centers for Medicare & Medicaid Services  
233 North Michigan Avenue, Suite 600  
Chicago, Illinois 60601

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
MEDICAID CREDIT BALANCES  
AT TRI-CITY MEDICAL CENTER  
AS OF FEBRUARY 28, 2009**



Daniel R. Levinson  
Inspector General

November 2009  
A-09-09-00078

# *Office of Inspector General*

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In California, the Department of Health Care Services (the State agency) administers Medicaid.

Credit balances may occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the program payment ceiling or allowable costs, resulting in an overpayment. Credit balances may also occur when a provider receives payments for the same services from the Medicaid program and another third-party payer. In such cases, the provider should return the overpayment to the Medicaid program, which is the payer of last resort.

Section 1903(d)(2)(C) of the Act, implemented at 42 CFR § 433.300(b), states: “. . . when an overpayment is discovered . . . the State shall have a period of 60 days in which to recover or attempt to recover such overpayment before adjustment is made in the Federal payment to such State on account of such overpayment. . . . [T]he adjustment in the Federal payment shall be made at the end of the 60 days, whether or not recovery was made.”

The State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe. However, State Medicaid cost report instructions state that it is the provider’s responsibility to maintain an effective system to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers must report outstanding credit balances as part of their annual cost report submissions and refund any overpayments when the State agency settles the cost reports.

Tri-City Medical Center (Tri-City) is a community owned and operated acute-care hospital located in Oceanside, California. Tri-City reported that it was reimbursed by the State agency approximately \$20.3 million for Medicaid services during calendar year 2008.

### **OBJECTIVE**

Our objective was to determine whether the Medicaid credit balances recorded in Tri-City’s accounting records as of February 28, 2009, for inpatient and outpatient services represented overpayments that Tri-City should have returned to the Medicaid program.

## **SUMMARY OF FINDING**

As of February 28, 2009, Tri-City's Medicaid accounts with credit balances included 48 overpayments totaling \$34,166 (\$17,083 Federal share) that had not been returned to the Medicaid program. For these accounts, the ages of the overpayments ranged from 1 day to over 730 days. Tri-City did not return the majority of overpayments to the State agency because Tri-City lacked adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$17,083 (Federal share) in Medicaid overpayments to Tri-City and
- work with Tri-City to develop adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

## **STATE AGENCY COMMENTS**

In its comments on our draft report, the State agency agreed with our recommendations. The State agency's comments are included in their entirety as the Appendix.

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## **INTRODUCTION**

### **BACKGROUND**

#### **Medicaid Program**

Pursuant to Title XIX of the Social Security Act (the Act), the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In California, the Department of Health Care Services (the State agency) administers Medicaid.

Credit balances may occur when the reimbursement that a provider receives for services provided to a Medicaid beneficiary exceeds the program payment ceiling or allowable costs, resulting in an overpayment. Credit balances may also occur when a provider receives payments for the same services from the Medicaid program and another third-party payer. In such cases, the provider should return the overpayment to the Medicaid program, which is the payer of last resort.

#### **Federal and State Requirements**

Section 1903(d)(2)(C) of the Act, implemented at 42 CFR § 433.300(b), states: “. . . when an overpayment is discovered . . . the State shall have a period of 60 days in which to recover or attempt to recover such overpayment before adjustment is made in the Federal payment to such State on account of such overpayment. . . . [T]he adjustment in the Federal payment shall be made at the end of the 60 days, whether or not recovery was made.”

The State agency does not have any regulations requiring providers to refund Medicaid credit balances within a specific timeframe. However, State Medicaid cost report instructions state that it is the provider's responsibility to maintain an effective system to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments. In addition, providers must report outstanding credit balances as part of their annual cost report submissions and refund any overpayments when the State agency settles the cost reports.

Providers must submit their annual Medicaid cost reports within 150 days after the end of the provider fiscal year. Pursuant to section 14170(a)(1) of the California Welfare and Institutions Code, the State agency has 3 years after the provider's fiscal year or the date of the submission, whichever is later, to audit or review the cost report.

## **Tri-City Medical Center**

Tri-City Medical Center (Tri-City) is a community owned and operated acute-care hospital located in Oceanside, California. Tri-City reported that it was reimbursed by the State agency approximately \$20.3 million for Medicaid services during calendar year 2008.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Medicaid credit balances recorded in Tri-City's accounting records as of February 28, 2009, for inpatient and outpatient services represented overpayments that Tri-City should have returned to the Medicaid program.

### **Scope**

Tri-City's inpatient and outpatient accounting records contained 169 Medicaid accounts with credit balances totaling \$175,678 as of February 28, 2009. Of these accounts with credit balances, Tri-City identified 99 as overpayments due to Medicaid (totaling \$44,780) and 70 as credit balances not due to Medicaid (totaling \$130,898):

- Of the 99 accounts with credit balances that Tri-City identified as overpayments due to Medicaid, we reviewed all 99.
- Of the 70 accounts with credit balances that Tri-City identified as credit balances not due to Medicaid, we reviewed a judgmental sample of 22 accounts with credit balances totaling \$102,113. We did not review the remaining 48 accounts with credit balances totaling \$28,785. Because our review confirmed that the 22 accounts with credit balances were not due to Medicaid, expanding our sample was unnecessary.

Our objective did not require an understanding or assessment of the complete internal control system at Tri-City. We limited our review of internal controls to obtaining an understanding of the policies and procedures that Tri-City used to review credit balances and report overpayments to the State Medicaid program.

We performed our fieldwork at Tri-City's facilities in Oceanside, California, from March through August 2009.

## **Methodology**

To accomplish our objective, we:

- reviewed Federal and State requirements pertaining to Medicaid credit balances and overpayments;
- reviewed Tri-City's policies and procedures for reviewing credit balances and reporting overpayments to the State agency;
- traced Tri-City's February 28, 2009, total credit balances to the accounts receivable records and traced the accounts receivable records to the balance sheet;
- identified Tri-City's Medicaid credit balances from its accounting records and reconciled the Medicaid credit balances to Tri-City's Medicaid credit balances report as of February 28, 2009;
- reviewed Tri-City's accounting records for selected accounts with credit balances, including patient payment data, Medicaid claim forms and remittance advices, patient accounts receivable detail, and additional supporting documentation;
- calculated the Federal share of overpayments based on the Federal medical assistance percentage of 50 percent; and
- coordinated our audit with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

## **FINDING AND RECOMMENDATIONS**

As of February 28, 2009, Tri-City's Medicaid accounts with credit balances included 48 overpayments totaling \$34,166 (\$17,083 Federal share) that had not been returned to the Medicaid program.

### **OUTSTANDING CREDIT BALANCE ACCOUNTS WITH MEDICAID OVERPAYMENTS**

As of February 28, 2009, Tri-City's Medicaid accounts with credit balances included 48 overpayments totaling \$34,166 (\$17,083 Federal share) that had not been returned to the Medicaid program. The ages of the 48 overpayments ranged from 1 day to over 730 days, as the table on the following page summarizes.

### **Ages of Overpayments as of February 28, 2009**

<b>Days</b>	<b>No. of Accounts</b>	<b>Overpayment Amount</b>	<b>Federal Share</b>
1–60	11	\$9,190	\$4,595
61–180	15	13,288	6,644
181–365	11	2,648	1,324
366–730	9	1,581	791
> 730	2	7,459	3,729
<b>Total</b>	<b>48</b>	<b>\$34,166</b>	<b>\$17,083</b>

Tri-City did not return the majority of overpayments to the State agency because Tri-City lacked adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

### **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$17,083 (Federal share) in Medicaid overpayments to Tri-City and
- work with Tri-City to develop adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

### **STATE AGENCY COMMENTS**

In its comments on our draft report, the State agency agreed with our recommendations. The State agency's comments are included in their entirety as the Appendix.

# **APPENDIX**

**APPENDIX: DEPARTMENT OF HEALTH CARE SERVICES COMMENTS**



DAVID MAXWELL-JOLLY  
Director

State of California—Health and Human Services Agency  
**Department of Health Care Services**



ARNOLD SCHWARZENEGGER  
Governor

**OCT 05 2009**


Ms. Lori A. Ahlstrand  
Regional Inspector General for Audit Services  
Office of Inspector General  
90 7<sup>th</sup> Street, Suite 3-650  
San Francisco, CA 94103

Dear Ms. Ahlstrand:

The California Department of Health Care Services (DHCS) has prepared its response to the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled "Review of Medicaid Credit Balances at Tri-City Medical Center as of February 28, 2009" (A-09-09-00078). DHCS appreciates the work performed by the OIG and the opportunity to respond to the draft report.

Please contact Ms. Traci Walter, Audit Coordinator, at (916) 650-0298 if you have any questions.

Sincerely,

  
Toby Douglas  
Chief Deputy Director  
Health Care Programs

cc: See next page

Ms. Lori A. Ahlstrand

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**OCT 05 2009**

cc: Ms. Karen Johnson  
Chief Deputy Director  
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Sacramento, CA 95899-7413

**Department of Health Care Services  
Response to the Office of Inspector General's Draft Report Entitled**

***Review of Medicaid Credit Balances at  
Tri-City Medical Center as of February 28, 2009***

**Recommendation:** We recommend that the State agency refund to the Federal Government \$17,083 (Federal share) in Medicaid overpayments to Tri-City.

**Response:** The Department of Health Care Services (DHCS) agrees with the recommendation and will issue a demand letter to Tri-City Medical Center to refund the amount of \$34,166. An accounts receivable will be established and the \$17,083 will be returned to the Federal Government.

**Recommendation:** We recommend that the State agency work with Tri-City to develop adequate policies and procedures to prevent, detect in a timely fashion, and take proper corrective action for Medicaid overpayments.

**Response:** The DHCS Financial Audits Branch (FAB) conducts annual Medi-Cal cost report audits of all acute care facilities. These audits include steps to review for credit balances. The audit of future cost reports for Tri-City Medical Center will include a review for credit balances. FAB will work with Tri-City during these audits to assure that adequate policies and procedures are developed.